Registered number
05216866

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

COMPANY INFORMATION

Board of Directors

O. Okhomina
A. Aina (Resigned 10 January 2014)
J. Ogundare (Appointed 17 March 2014)
G. Ihetu (Appointed 25 March 2014)
O. Olowolafe (Appointed 25 March 2014, resigned 18 December 2014)
O. Okonji (Appointed 25 March 2014)

Company Secretary

O.Okhomina

Registered Office

86-90 Paul Street
London
EC2A 4NE

Auditors

Moore Stephens LLP
Chartered Accountants
150 Aldersgate Street
London
EC1A 4AB

ENERGY EQUITY RESOURCES (NORWAY) LIMITED
STRATEGIC REPORT

The Strategic Report reviews the performance and progress for Energy Equity Resources (Norway) Limited and its subsidiaries (the "Group") for the year ended 31 December 2014. It includes corporate responsibility as well as information on future prospects.

Overview of Operations

The principal activities of the Group are those of oil and gas exploration and development of onshore and offshore hydrocarbon resources in Africa, primarily in Nigeria. To date the Group's interests and prospective interest include opportunities in the Niger Delta.

Key Activities

In October 2014, the Aje partners took Final Investment Decision (FID) on the Phase 1 cenomanian oil development of the Aje field in OML 113. On the 3rd May 2016, the asset officially achieved 1st oil production at a rate of approximately 7,000 bopd. The OML 113 partners, including the Group, have entered into an Offtake Agreement with international trading company Glencore, with the 1st sale of crude oil from the field achieved during September 2016.

The attainment of this milestone is a historic achievement for the Nigerian oil and gas industry as it celebrates the first commercial hydrocarbon production outside the prolific Niger Delta basin, where Nigerian enterprises exclusively produce hydrocarbons. The OML 113 partners are working on a development program that will increase gross oil production to circa 20,000 bopd (Phase 2) in 2017 and an Aje gas development programme that will include an offshore gas processing facility stationed about 13km to the West African Gas Pipeline (WAGP) and 27 km to Lagos. The OML 113 partners intend to fast track the Aje gas development (Phase 3) to first gas production by late 2017/ early 2018. The OML 113 partners' interpretation of the 2014 vintage 3D seismic data shows material oil and gas prospective resource upside in OML 113.

A Competent Persons Report ("CPR") has assigned an NPV (10) of U.S.$59,300K net valuation to the Group to this asset based on an oil price of U.S.$40 per barrel, with 2P plus 2C resources net to the Group of 40 mmboe ("million barrels of oil equivalent") for OML 113.

OML 113 is a sole-risk license whereby the concession is granted solely to one company and there is no state participation through the Nigerian National Petroleum Corporation ("NNPC"). OML 113 was initially awarded to, and held by, a single concessionaire, Yinka Folawiyo Petroleum Company Limited ("YFP"). OML 113 is now held by the Aje Partners under a joint operating agreement. YFP retains a 60% Participating Interest as there is a statutory requirement to ensure that the majority Participating Interest is under indigenous ownership. The costs of YFP until first oil are carried by the other Aje Partners. As a result, the Group bears a higher paying Interest (22.5%.) and is entitled to a higher Profit Share Interest (16.875 %) compared with its Participating Interest (9%).

Under the Sole Risk licence, the fiscal terms comprise a 10% oil royalty and Aje benefits from a reduced Petroleum Profits Tax ("PPT") of 50% as opposed to 85%. All production remaining after deduction of royalty oil, operating costs and depreciation is subject to PPT.

The Group has been heavily dependent on third parties and its ultimate beneficial owner to fund its Participating Interest in OML 113 to date.

Key Activities (continued)

The Group continues to operate a fixed fee service contract with a Nigerian subsidiary of an international oil company ("IOC") to provide consultancy services relating to contractor capability audits, local content development and project management. On 16 February 2015, this contract was renewed for a further two years from this date and has a total value of U.S.$3,800K. Due to operational constraints no revenue was earned on this contract between the date of renewal and the date of this accounts and management will be seeking a further renewal for the same value.

Key Management Changes

In March 2014, the board appointed Mr Joseph Ogundare as Chief Executive Officer and Mr Osamede Okhomina as Vice Chairman. In March 2014, three Non-Executive Directors were also appointed to the board to enhance the corporate governance environment and to assist the Company in achieving its strategic objectives. These comprised Dr Godswill Ihetu as Non-Executive Chairman, and Olivia Ada Okonji and Olanike Olowolafe as Non-Executive Directors. On 18 December 2014, Olanike Olowolafe resigned from the board.

Our Business Model and Strategy

Our Vision

Our vision is to build an exploration, development and producing asset portfolio in line with our corporate, social and environmental responsibilities.

Our Strategy

Our strategy is to acquire and develop oil and gas assets using the best business practices in order to deliver significant value to all stakeholders including the host communities where we operate.

In addition, we are focused on acquiring near-term producing and producing assets with significant upsides under a cost effective corporate structure in order to enhance shareholder value.

Our Business Model

Our business model includes the acquisition and development of concessions in proven hydrocarbon provinces in Africa, in particular Nigeria. We believe that our selective approach is cost effective and beneficial to both the Company and our stakeholders.

In addition, with our extensive local knowledge, expertise, relations with government agencies and strong community relations, we are in a good position to acquire oil and gas opportunities that will allow us to increase stakeholder value.

Key Performance Indicators

Key performance indicators are useful in assessing the Group's performance against its strategic objectives.

However, due to the financial position of the Group during 2014 and the continuing need to raise sufficient funds to secure participation in the various licences and to fund administrative activities, the key focus has been on cash flow budgetary control to manage the settlement of all obligations and liabilities to third parties.

The Board has set new KPIs in 2015 to measure the development of its oil and gas assets. These KPIs include a target corporate overhead cost reduction of 50% and a target positive equity position, by conversion of most of its debt to equity, with an overall view of improving cash flows.

Risk Management and Control

The board of directors has the responsibility for the overall system of internal control and for reviewing its effectiveness. This includes the identification and assessment of its particular risk exposures and implementing risk management policies, limits and procedures.

In the ordinary course of business, the Group is exposed to and manages a variety of risks in relation to its activities and fixed assets investments, as follows:

Operational - The success of the underlying operations relating to the fixed asset investments and underlying assets is dependent upon success in finding, acquiring and developing licence areas for the Company and its subsidiaries. If the level of reserves is found to be lower than anticipated or prove to be uneconomic for production purposes, this could have a material impact on the results of the underlying operations and ultimately on the financial results of the Group.

The Group's oil exploration activities and development of onshore and offshore hydrocarbon resource activities in Nigeria are subject to significant government laws and regulations, which may impact on the operations. The costs associated with compliance with government regulations may ultimately be material and adversely affect the operations and ultimately, the results of the Group.

Foreign exchange - The Group is not faced with any material foreign exchange risks relating to its activities in the United Kingdom but the underlying operations in Nigeria face exchange risks that could positively affect the results of its operations due to the devaluation of the naira. Any changes in the relative exchange rates between the US Dollar and Nigerian Naira could affect the underlying operations and ultimately the results of the Group.

Liquidity risk - The Group's requirement for funds to meet capital expenditure commitments in relation to exploration and development activities and meeting obligations under environmental laws and regulations continue. The Group requires additional funds to maintain its overhead base and to pursue its existing and new opportunities. The Group expects to finance a substantial part of its capital expenditure through additional loan instruments or through raising capital from its ultimate beneficial owner and private institutions.

However, the failure to raise additional funding will have an adverse effect on the Company's and Group's ability to continue as a going concern.

Interest rate risk - The Group has entered into fixed interest bearing borrowings, including convertible loan notes, to fund its capital expenditure commitments at interest rates commensurate to the Group's operational and country risk. The Group does earn interest on funds held in its bank accounts but the amounts are not considered significant.

This strategic report was approved by the board of directors and signed on its behalf by:

O. Okhomina
Director

Date: 10 March 2017

ENERGY EQUITY RESOURCES (NORWAY) LIMITED
REPORT OF THE DIRECTORS

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2014.

The financial statements have been prepared under, and comply with, International Financial Reporting Standards, as adopted by the EU.

Results and Dividends

The Group incurred a loss for the financial year after tax of U.S.$75,405K (2013: Loss of U.S.$27,213K). The directors do not recommend the payment of a dividend in respect of the year.

Directors

The names of the directors of the Company as at the date of the approval of the directors' report are listed on page 1. The names of the directors serving during the year and subsequent to the financial reporting date are as follows:

O. Okhomina
A. Aina (Resigned 10 January 2014)
J. Ogundare (Appointed 17 March 2014)
G. Ihetu (Appointed 25 March 2014)
O. Olowolafe (Appointed 25 March 2014, resigned 18 December 2014)
O. Okonji (Appointed 25 March 2014)

Company Number

The registered number of the Company is 05216866.

Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Declaration

Each of the persons who are directors at the time when this report is approved has confirmed that:

(a) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and the Company's auditors for that purpose, in order to be aware of any information needed by the Company's auditors in connection with

(c) preparing their report and to establish that the Company's auditors are aware of that information.

Going Concern

The Group is currently refocusing its operations in order to concentrate on the development of its near term production asset OML 113. On 16 September 2016, the Group completed the sale of its 1st crude oil cargo (620,000 bbls) from the Aje field in OML 113. The revenues will be used by the Group to meet ongoing investment requirements in the Aje field as well as working capital requirements of the Group. This new revenue is expected to improve the solvency of the Group.

However, the Group's cash flow is still under severe pressure notwithstanding expected revenue from its recently renewed consultancy contract with a major IOC, where it expects to receive U.S.$1.9 million per annum for advisory services on local content issues.

The Group will need to secure additional funding within the next twelve months and beyond, however, the directors consider it appropriate to prepare the financial statements on a going concern basis, particularly as the Group is currently in discussions with a number of investors and it has been able to raise sufficient funds via the ultimate beneficial owner to continue with the development of OML 113 in the short term.

At this stage, however, there can be no certainty as regards the availability of the additional funding necessary to continue the development of the Group's principal asset.

Events After the Reporting Date

Refer to Note 19 to the financial statements for significant events after the reporting date.

This report of the directors was approved by the board of directors and signed on its behalf by:

O. Okhomina
Director

Date: 10 March 2017

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ENERGY EQUITY RESOURCES (NORWAY) LIMITED

We have audited the Group and parent company financial statements of Energy Equity Resources (Norway) Limited for the year ended 31 December 2014 which are set out on pages 9 to 46. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors..

Scope of the audit of the financial statements

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2014 and of the Group's and parent company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 2(b) of the financial statements concerning the uncertainty as to the continuation of the Group and parent company as a going concern. The Group incurred a loss of U.S.$75,405K for the year 31 December 2014 (2013: Loss of U.S.$27,213K) and, at that date, had negative equity of U.S.$44,635K (2013: negative equity of U.S.$39,744K).

These conditions, along with other matters explained in Note 2(b) to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Group and the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and parent company were unable to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ENERGY EQUITY RESOURCES (NORWAY) LIMITED (continued)

Emphasis of matter - Convertible loan notes

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the recognition of convertible loan notes, their subsequent conversion into equity and the associated disclosures included in Notes 13 and 14 of the financial statements, for the years ended 31 December 2014 and 31 December 2013.

Despite the negative equity position of the Group and the material uncertainty about the Group's ability to continue as a going concern, the Company has issued convertible loan notes to related parties of the ultimate beneficial owner during the years ended 31 December 2014 and 31 December 2013.

Due to the fact that these transactions are with related parties, and the challenges that exist in determining equivalent fair value transactions in the market place for an equivalent Group of this size, the Group has used an equivalent interest rate of 30% per annum for determining the equity component of the convertible loan note issued to Hessia Group Limited for the year ended 31 December 2014.

However, the financial statements do not include the equity components on initial recognition of the compound financial instrument relating to convertible loan note issued to Gairloch Limited and Guan Limited for the years ended 31 December 2014 and 2013 due to the high implicit interest rates attached to these convertible loan notes (Note 14).

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Michael Simms

Michael Simms, *Senior Statutory Auditor*

For and on behalf of Moore Stephens LLP, Statutory Auditor

150 Aldersgate Street
London
EC1A 4AB

Date: 10 March 2017

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014
(Expressed in U.S.$ '000s)

	Notes	Group		Company	
		2014	2013	**2014**	2013 (restated)
Non-Current Assets					
Farm-in deposits	9	**-**	11,998	**-**	-
Property, plant and equipment - administrative	10	**84**	181	**-**	-
Oil and gas properties	10	**59,337**	-	**-**	-
Intangible assets	11	**-**	46,985	**-**	-
Investments	11	**-**	-	**154**	154
		59,421	59,164	**154**	154
Current Assets					
Trade and other receivables	12	**862**	2,990	**13,754**	25,968
Cash and cash equivalents		**272**	58	**-**	-
		1,134	3,048	**13,754**	25,968
Total Assets		**60,555**	62,212	**13,908**	26,122
Capital and reserves attributable to owners of the Company					
Share capital	13	**2,229**	820	**2,229**	820
Share premium	13	**123,182**	55,867	**123,182**	55,867
Other reserves		**24**	454	**24**	454
Accumulated losses		**(172,074)**	(96,885)	**(164,273)**	(97,391)
Total Equity attributable to owners of the Company		**(46,639)**	(39,744)	**(38,838)**	(40,250)
Non-controlling interest		**2,004**	-	**-**	-
Total Equity		**(44,635)**	**(39,744)**	**(38,838)**	**(40,250)**
Non-current Liabilities					
Borrowings	14	**11,318**	-	**-**	-
Current Liabilities					
Borrowings	14	**80,990**	91,877	**46,712**	57,877
Trade and other payables	15	**12,882**	10,079	**6,034**	8,495
		93,872	101,956	**52,746**	66,372
Total Liabilities		**105,190**	101,956	**52,746**	66,372
Total Equity and Liabilities		**60,555**	62,212	**13,908**	26,122

The financial statements were approved by the Board, and authorised for issue on 10 March 2017.

Signed on its behalf by

O. Okhomina - Director

The Notes set out on pages 13 to 46 form an integral part of these financial statements.

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014
(Expressed in U.S.$ '000s)

	Notes	Group		Company	
		2014	2013	**2014**	2013
Sales and other operating revenues	5	**-**	497	**-**	-
Operating expenditure		**(17)**	(162)	**-**	-
Gross (Loss)/Profit		**(17)**	335	**-**	-
Administrative expenses incurred/(over accrued)	6	**(5,212)**	(9,757)	**532**	(4,128)
Impairment of intangible asset	10	**(6,686)**	-	**-**	-
Operating Loss	6	**(11,915)**	(9,422)	**532**	(4,128)
Allowance against receivables due from a subsidiary undertaking	12	**-**	-	**(34,132)**	(3,671)
Impairment of trade receivables	12	**(1,299)**	-	**-**	-
Pre-licence expenses written off	9	**(26,736)**	-	**-**	-
Finance income		**-**	9	**-**	-
Finance cost	8	**(35,455)**	(17,800)	**(33,498)**	(17,780)
Loss before Tax		**(75,405)**	(27,213)	**(67,098)**	(25,579)
Income tax expense	16	**-**	-	**-**	-
Loss after Tax	5	**(75,405)**	(27,213)	**(67,098)**	(25,579)
Other comprehensive income		**-**	-	**-**	-
Total Comprehensive Loss for the Year		**(75,405)**	(27,213)	**(67,098)**	(25,579)

The Notes set out on pages 13 to 46 form an integral part of these financial statements

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
(Expressed in U.S.$ '000s)

	Notes	Group 2014	Group 2013	Company 2014	Company 2013 (restated)
Loss before tax		**(75,405)**	(27,213)	**(67,098)**	(25,579)
Depreciation of property, plant & equipment	10	**67**	58	**-**	-
Provision against amounts due from subsidiaries		**-**	-	**34,132**	3,671
Finance income		**-**	(9)	**-**	-
Finance cost		**35,455**	17,800	**33,498**	17,780
Impairment of trade receivables		**1,299**	-	**-**	-
Impairment of intangible asset		**6,686**	-	**-**	-
Pre-licence expenditure written off		**26,736**	-	**-**	-
Share based payments		**216**	-	**216**	-
Operating cash flows before movements in working capital		**(4,946)**	(9,364)	**748**	(4,128)
Increase in trade and other receivables		**(45)**	87	**3**	36
Decrease in trade and other payables		**2,803**	3,307	**(2,461)**	1,399
Net cash used in operating activities		**(2,188)**	(5,970)	**(1,710)**	(2,693)
Purchases of property, plant and equipment – administrative	10	**-**	(30)	**-**	-
Disposals of property, plant and equipment – administrative	10	**30**	-	**-**	-
Purchases of property, plant and equipment – oil and gas properties	10	**(13,305)**	-	**-**	-
Finance income		**-**	9	**-**	-
Purchase of intangible assets	11	**(5,733)**	(46,985)	**-**	-
OPL 233 Farm-in and deposits (advanced)/received	9	**(14,738)**	3,508	**-**	-
Amounts advanced to subsidiaries		**-**	-	**(21,919)**	(12,816)
Net cash used in investing activities		**(33,746)**	(43,498)	**(21,919)**	(12,816)
New loans raised		**36,148**	49,489	**23,629**	15,509
Net cash from financing activities		**36,148**	49,489	**23,629**	15,509
Net increase in cash and cash Equivalents		**214**	21	**-**	-
Cash and cash equivalents at the beginning of Year		**58**	37	**-**	-
Cash and cash equivalents at the end of the Year		**272**	58	**-**	-

Non-cash items:

Interest charged in the year has not been paid.

The Notes set out on pages 13 to 46 form an integral part of these financial statements

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(Expressed in U.S.$ '000s)

	Share capital	Share premium	Equity reserve	Accumulated losses	Total	Non-controlling interest	Total equity
Group							
Balance at 1 January 2013	820	55,867	442	(69,672)	(12,543)	-	(12,543)
Convertible loan note issued (Note 13)	-	-	12	-	12	-	12
Comprehensive loss in the year	-	-	-	(27,213)	(27,213)	-	(27,213)
Balance at 31 December 2013	820	55,867	454	(96,885)	(39,744)	-	(39,744)
Shares issued during the year (Note 13)	16	1,822	-	-	1,838	-	1,838
Convertible loan note converted (Note 13)	1,388	65,493	(442)	-	66,439	-	66,439
Convertible loan note issued (Notes 13 and 14)	-	-	12	-	12	2,004	2,016
Share based payments to employees (Note 13.2)	5	-	-	216	221	-	221
Comprehensive loss in the year	-	-	-	(75,405)	(75,405)	-	(75,405)
Balance at 31 December 2014	2,229	123,182	24	(172,074)	(46,638)	2,004	(44,635)
Company							
Balance at 1 January 2013	820	55,867	442	(71,812)	(14,683)	-	(14,683)
Convertible loan note issued (Note 13)	-	-	12	-	122	-	122
Comprehensive loss in the year	-	-	-	(25,579)	(25,579)	-	(25,579)
Balance at 31 December 2013	820	55,867	454	(97,391)	(40,250)	-	(40,250)
Shares issued during the year (Note 13)	16	1,822	-	-	1,838	-	1,838
Convertible loan note conversion (Note 13)	1,388	65,493	(442)	-	66,439	-	66,439
Convertible loan note issued (Note 13)	-	-	12	-	12	-	12
Share based payments to employees (Note 13.2)	5	-	-	216	221	-	221
Comprehensive loss in the year	-	-	-	(67,098)	(67,098)	-	(67,098)
Balance at 31 December 2014	2,229	123,182	24	(164,273)	(38,838)	-	(38,838)

The Notes set out on pages 13 to 46 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. General

Energy Equity Resources (Norway) Limited is a company incorporated in England & Wales. The address of the registered office is given on page 1. The principal activities are that of an oil and gas exploration and development group with activities focused in Africa.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best estimate of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. Accounting Policies

(a) Basis of accounting

The consolidated financial statements are prepared in U.S. dollars (U.S.$ or $) as this is the currency of the primary economic environment in which the Group operates. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Significant accounting policies adopted by the Company are set out below.

(b) Going concern

The Group incurred a loss of U.S.$75,405K for the year 31 December 2014 (2013: Loss of U.S.$27,213K) and, at that date, had negative equity of U.S.$44,635K (2013: negative equity of U.S.$39,744K).

The Group is currently refocusing its operations in order to concentrate on the development of its near term production asset OML 113. On 16 September 2016 the Group completed the sale of its 1st crude oil cargo (620,000 bbls) from the Aje field in OML 113. The revenues will be used by the Group to meet ongoing investment requirements in the Aje field as well as working capital requirements of the Group. The new revenue has improved the solvency of the Group.

However, the Group's cash flow is still under severe pressure notwithstanding revenue from its recently renewed consultancy contract with a major IOC, where it expects to receive U.S.$1,600K per annum for advisory services on local content issues.

The Group will need to secure additional funding within the next twelve months, the directors consider it appropriate to prepare the financial statements on a going concern basis, particularly as the Group is currently in discussions with a number of investors and it has been able to raise sufficient funds from its ultimate beneficial owner to continue with the development of OML 113 in the short term.

At this stage, however, there can be no certainty as regards the availability of the additional funding necessary to continue the development of the Group's principal asset.

2. Accounting Policies (continued)

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Energy Equity Resources (Norway) Limited and its subsidiary companies. The results of the subsidiary companies are incorporated from the date of acquisition. Transactions and balances incurred between all companies within the Group are eliminated on consolidation. All companies in the Group have coterminous year ends.

(d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquirer's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

In accordance with IFRS 3 substance over legal form is applied to whether an acquisition can be considered as a business combination or an investment asset.

(e) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable goodwill is included in the determination of the profit or loss on disposal.

2. Accounting Policies (continued)

(f) Property, plant and equipment – administrative

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold improvements	10%
Fixtures and equipment	20%
Computer hardware and software	33%
Plant machinery and vehicles	20%

Property, plant and equipment - oil and gas properties

For accounting purposes, the field enters into the development phase when the partners in the license declare the field commercial. Capitalised exploration and acquisition costs are then reclassified from intangible exploration and evaluation assets to property, plant and equipment assets. The exploration and evaluation assets are assessed for impairment before reclassification.

All directly attributable costs of developing commercial oil and/or gas fields, including qualifying borrowing costs, are capitalised as additions to property, plant and equipment.

When a field is starting the production of oil and gas, the capitalised costs for the oil and gas properties, including reclassified exploration costs and all development costs, are depreciated using the unit-of-production method. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proved and probable reserves at the beginning of the period. The future development expenditures necessary to bring those reserves into production are included in the cost base for depreciation, and are estimated by management based on current period end price levels. Any changes in the reserves and cost estimates that affect unit-of-production rates are dealt with prospectively.

(g) Intangible Assets: Oil and Gas Expenditure

The costs of exploring for and acquiring oil and gas properties are accumulated and capitalised by reference to appropriate cost pools. Cost pools are determined on the basis of fields possessing common characteristics in at least one of the following: geological area, interdependence of infrastructure, common environment or common development of markets.

The initial cost pools for the Group are as follows:

* Nigeria Area (Joint Development Zone between Nigeria and Sao Tome e Principe)

All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets pending determination of the commerciality of the relevant properly. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities.

Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred.

2. Accounting Policies (continued)

(g) Intangible Assets: Oil and Gas Expenditure (continued)

An exploration and evaluation asset is assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events are defined in IFRS 6 and include the point at which a determination is made as to whether commercial reserves exist.

If prospects are deemed to be impaired ("unsuccessful") on completion of the evaluation, then associated costs are charged to profit or loss in the statement of comprehensive income. If the field is determined to be commercially viable, the attributable costs are transferred to property plant and equipment (oil and gas properties) where they will be depreciated on a unit of production basis.

(h) Impairment

At each financial reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Financial Investments

Fixed asset investments in subsidiaries held by the parent company are shown at cost less provision for impairment.

(j) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profits for the period which are subject to the fiscal regulations of the countries in which the Company and its subsidiaries are incorporated. Income taxes are accounted for in accordance with relevant fiscal regulations. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the financial reporting date.

Deferred tax

Deferred income taxes are provided for on all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred income tax asset is recorded only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences can be utilised. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the financial reporting date.

2. Accounting Policies (continued)

(k) Sales, other operating revenues and other income

Sales comprise the fair value of the consideration received or receivable for the sale of natural gas and oil products in the ordinary course of the Group's activities. Other operating revenues comprise consulting income. Sales and other operating revenues are recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Group's activities as described below. Revenue is shown after eliminating sales within the Group.

Revenues from fixed price consulting contracts are recognised on a percentage of completion basis, which is generally based on physical progress related to the contractually defined units of work. Physical percentage complete is determined as a combination of input and output measures as deemed appropriate by the circumstances. Cost adjustments that are in the process of being negotiated with customers for extra work or changes in work scope are included in revenue when collection is deemed probable. Expected losses on consulting contracts should be immediately recognised as an expense.

The Group recognises finance income earned on cash and cash equivalents on an accrual basis. The Group had no sales revenue from the sale of oil and natural gas during the year (2013: Nil).

(l) Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in US Dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the financial reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the statement of comprehensive income for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss in the statement of comprehensive income for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

2. Accounting Policies (continued)

(m) Operating leases

Rentals under operating leases are charged to profit or loss in the statement of comprehensive income on a straight line basis over the period of the relevant lease..

(n) Provisions

Provisions are recognised where amounts are expected to be payable by the Group in the future, in respect of past events, where it is probable that payments will be required to settle the obligation and where a reliable estimate can be made of the amounts involved.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on deposit with banks with a maturity of three months or less at the date of inception. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(p) Financial instruments

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period.

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible loan notes that can be converted to share capital at the option of the holder, and the number of shares to be issued is based on pre-determined valuations of the Company.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

2. Accounting Policies (continued)

(p) Financial instruments (continued)

Compound financial instruments (continued)

The interest expense on the liability component is calculated by applying the effective interest method. This is obtained by calculating the present value of future cash flows at a market rate for a loan without the convertible component. The difference between the effective interest rate and the interest paid is added to the carrying amount of the convertible loan note.

(q) Pensions

The Group contributes towards a defined contribution pension scheme. The contributions are charged to profit or loss in the statement of comprehensive income as incurred.

(r) Share options

Executive directors and senior management and certain employees have been granted share options under the Group share option scheme. At grant date, the fair value of the options is measured, and recognised over the period until the options vest as an employment expense, with a corresponding increase in equity. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The total amount to be expensed is determined by reference to the fair value of the options granted (a) including any market performance conditions; (b) excluding the impact of any service and non-market performance vesting conditions, such as profitability levels, sales growth targets and continuing service; and (c) including the impact of any non-vesting conditions, such as any savings requirements.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on meeting service and non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(s) Investments in joint arrangements

Joint arrangements are those arrangements where the Group shares joint control. Such arrangements may be classified as either a joint venture (the Group has an interest in the net assets of the jointly controlled entity), or a joint operation (the Group has joint rights to the assets and joint obligations for the liabilities of the joint arrangement). The Group applies equity accounting for joint ventures and proportional consolidation for joint operations.

Where the Group has transactions with a joint arrangement, unrealised profits and losses are eliminated to the extent of the Group's interest in that joint arrangement.

3. New Accounting Pronouncements

(a) Standards, amendments and interpretations effective in 2014

In the current period, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2014 through to 31 December 2014. The adoption of the Standards and Interpretations issued by the IASB has not led to any changes in the Company's accounting policies.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

Standards and revisions to existing standards that are not yet effective at 31 December 2014 and have not been early adopted by the Company are listed below. The directors do not expect that the adoption of the Standards listed below will have a material impact on the financial statements of the Company in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments. Beyond the information below, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 9 Financial Instruments and subsequent amendments
IFRS 9 is a new standard for financial instruments that is ultimately intended to replace IAS 39 in its entirety. IFRS 9 will be issued in several phases, and currently the "classification and measurement" and "general hedge accounting" has been issued. The effective date for application is 1 January 2018, but the EU has not yet decided on effective date. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the Company's financial assets and financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 15 Revenue from contracts with customers
IFRS 15 specifies how and when to recognise revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. This standard becomes effective for annual periods beginning on or after 1 January 2017. The Company does not expect any material impact on the financial statements at this time based on current activities.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in Note 2, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements:

(i) Going concern as set out in Note 2(b);
(ii) Determination of the fair value of convertible loan notes with related parties (Notes 13 and 14) and share based payments (Note 13); and

(iii) Evaluation of impairment against capitalised costs associated with farm-in deposits (Note 9), intangible assets (Note 11.1) and oil and gas properties (Note 10.2) relating the Group's participating interest in various licenses and amounts due from subsidiaries at a Company level (Note 12). This is largely dependent on the viability of the Group's principal asset.

(iv) Accounting for consultancy contract revenues and associated costs under IAS 11 'Construction Contracts' accounting standards;

5. Segmental Reporting

Geographical segments
The directors consider the business predominantly from a geographical perspective and the Group currently operates in only one geographical market: West Africa. West Africa operations currently comprise exploration and evaluation activity as well as consulting business in Nigeria.

	Consolidated $000's	
	2014	2013
Segment revenues	**-**	497
Segment result	**(5,229)**	(9,919)
Interest receivable	**-**	9
Impairment of trade receivables	**(1,299)**	-
Impairment of intangible assets	**(6,686)**	-
Pre-licence expenditure	**(26,736)**	-
Interest payable	**(35,455)**	(17,800)
Loss before and after tax	**(75,405)**	(27,213)
Segment assets	**61,431**	62,212
Segment liabilities	**(106,066)**	(101,956)
Capital additions	**-**	30
Capital disposals	**(30)**	-
Depreciation	**(67)**	(58)

6. Administrative Costs and Operating Loss

6.1. Administrative Costs

	Group		Company	
	2014	2013	**2014**	2013
	$000's	$000's	**$000's**	$000's
Staff costs	**2,617**	2,382	**774**	600
Rent, rates and utilities	**1,230**	1,352	**-**	-
Travel and business development	**220**	534	**-**	-
Office overheads	**406**	278	**-**	-
Legal fees	**(1,232)**	3,118	**(1,473)**	3,083
Audit and Tax	**82**	109	**48**	100
Accountancy costs	**35**	112	**-**	-
Consultancy costs	**453**	566	**-**	-
Other professional costs	**818**	1,250	**119**	345
Foreign exchange loss	**583**	56	**-**	-
	5,212	9,757	**(532)**	4,128

6.2. Operating Loss

Operating loss is stated after charging:

	2014	2013
	$000's	$000's
Depreciation of property, plant and equipment (Note 10)	**67**	58
Foreign exchange loss	**583**	56
Operating lease costs (office)	**533**	531
Impairment of trade receivables (Note 12)	**1,299**	
Impairment of intangible assets (Note 10)	**6,686**	-
Pre-licence expenses written off (Note 12)	**26,736**	-
Auditors' remuneration:		
- Statutory audit services	**62**	84
- Tax compliance services	**20**	25

7. Staff Costs

The average monthly number of employees (including Executive Directors) employed was as follows:

	Group		Company	
	2014	2013	**2014**	2013
Administration	**9**	**10**	-	-
Professional	**5**	**7**	-	-
	14	**17**	-	-

Their aggregate remuneration comprised:

	Group		Company	
	2014	2013	**2014**	2013
	$000's	$000's	**$000's**	$000's
Wages and salaries	**2,399**	2,084	**774**	600
Social security costs	**95**	125	-	-
Pension costs	**123**	173	-	-
	2,617	2,382	**774**	600

	Group		Company	
	2014	2013	**2014**	2013
	$000's	$000's	**$000's**	$000's
Directors' emoluments	**844**	377	**108**	-
Emoluments and benefits paid to highest paid director	**433**	303	-	-

Key management personnel
The directors are of the opinion that the key management of the Company comprises the Board of Directors, who have the authority and responsibility for planning, directing and controlling the activities of the Company. Key management during the year ended 31 December 2014 also included the Head of Finance. During the year ended 31 December 2014, there were four members of key management (2013: 2). Key management compensation for the Group is summarised as follows:

	Group		Company	
	2014	2013	**2014**	2013
	$000's	$000's	**$000's**	$000's
Short term employee benefits	**949**	421	**108**	-

Defined contribution pension scheme costs are charged as an expense in the period they are incurred. The amount expensed within these financial statements for the year ended 31 December 2014 is U.S.$123K (2013: U.S.$173K). Short term benefits include amounts paid in the year to ex-employees.

8. Finance Cost

	Group		Company	
	2014	2013	**2014**	2013
	$000's	$000's	**$000's**	$000's
Interest on convertible loans	**33,240**	8,996	**31,283**	8,996
Interest on other long term borrowings	**2,029**	8,382	**2,029**	8,382
Interest on other borrowings	**186**	422	**186**	402
	35,455	17,800	**33,498**	17,780

During the year the Group capitalised interest cost of U.S.$1,116K to property, plant and equipment - oil and gas properties – assets under construction (Note 10.2).

9. Farm-in Deposits

	Group		Company	
	2014	2013	**2014**	2013
	$000's	$000's	**$000's**	$000's
Balance at 1 January	**11,998**	15,506	-	-
Additions	**14,738**	2,736	-	-
Pre - license expenditure write off	**(26,736)**	-	-	-
Transfers to intangible assets (Note 11)	-	(6,244)	-	-
Balance at 31 December	-	11,998	-	-

<u>OPL 281 - Nigeria</u>
The Group with its JV partner, SacOil entered into a Farm In Agreement with Transcorp PLC ("Transcorp"), the farmor, for the assignment of 20% Participating Interest each to the Group and SacOil.

Pursuant to an agreement between the Group and SacOil, SacOil funded the Group's share of a farm-in deposit due to Transcorp of U.S.$6,500K. This loan from SacOil was only repayable once oil production commences. Consequently, the U.S.$6,250K and associated interest has not been recorded in these financial statements (2013: not recorded).

In March 2015, SacOil and the Group and SacOil entered into a settlement agreement where the Group's contingent debt in relation to OPL 281 was written off in consideration for the Group supporting SacOil's withdrawal from the asset. The settlement agreement stipulates that the execution of the withdrawal letter by the Group results in full and final settlement of all amounts owed by the Group to SacOil.

During the years ended 31 December 2014 and 2013, no development costs were incurred by the Group on this asset or recorded in these financial statements.

9. Farm-in Deposits (continued)

OPL 233 - Nigeria

The Group and its JV partner, SacOil entered into a farm in agreement with Nigdel United Company Limited ("Nigdel"), the farmor, for the assignment of 20% Participating Interest to each of the Group and SacOil upon receipt of all government consent. Under this agreement, the farmees have posted a Performance Bond of U.S.$25,000K collectively as part of its obligations.

SacOil funded the Group's share of the Performance Bond being U.S.$12,500K. As collateral for the bond, SacOil provided a U.S.$10,000K cash deposit and a pledge over the shares of SacOil 233 Nigeria Limited, a wholly owned subsidiary of SacOil for the residual amount. The Group's share of that cash deposit amounted to U.S.$5,000K and costs capitalised include the 50% interest associated with raising the Performance Bond.

The interest bearing loan from SacOil of U.S.$5,000K is for 50% of the security provided by SacOil and 50% of the related transaction costs. The loan is secured against the entire share capital of EER 233 Nigeria Ltd (Note 14). In the event that Nigerian government consent is not obtained for the OPL 233 assignment, Nigdel is to refund the farm-in fees and the investment made in connection with this asset plus interest at 10% per annum. This refund is secured via a charge over shares in Nigdel.

In March 2015, SacOil and the Group entered into a debt settlement agreement where the Group's total indebtedness was confirmed as being U.S.$24,714K (Note 14) as at 30 November 2014 and frozen at this amount with no further finance costs to accrue from this date. The settlement agreement provided for repayments to be made from certain contingent receivables from the Group related to its interest in OML 113 between March 2015 and the date of first oil from the Group's OML 113 asset.

No such contingent receivables materialised and pursuant to the settlement agreement, the total indebtedness of the Group reduced to U.S.$5,000K on the date of first oil production from OML 113, being in May 2016. The residual U.S.$5,000K indebtedness is interest free and repayable only out of a defined and restricted portion of free cash flow from the Group's OML 113 asset after inter alia: operating cost, capital costs, financing cost, debt repayment and other defined costs and provisions. The Group expects to recognise a credit to profit and loss in the statement of comprehensive income of at least U.S.$19,714K in relation to the debt settlement agreement during the year ended 31 December 2015, with the exact amount dependent on the Group's assessment of the likelihood and potential timing of any repayments.

Included within additions for the year ended 31 December 2014 is an amount billed by Nigdel of U.S.$6,330K which had not been settled in cash by 31 December 2014. On 26 May 2015, the Group informed Nigdel that it was withdrawing from the farm in agreement and reached a settlement with Nidgel whereby this U.S.$6,330K ceased to become payable by the Group. The Group expects to recognise a credit to profit and loss in the statement of comprehensive income of U.S.$6,330K in relation to this settlement during the year ended 31 December 2015.

As at 31 December 2014 the directors considered that it is highly unlikely that any economic benefits would be derived out of the OPL 233 and the full carrying value of the farm-in deposit was impaired on this date.

10. Property, Plant and Equipment

10.1 Property, plant and equipment – administrative

Group – 2014 Cost	Leasehold improvements $000's	Fixtures and equipment $000's	Computer hardware and software $000's	Plant machinery and vehicles $000's	Total $000's
At 1 January 2014	1,424	542	292	190	2,448
Disposals	-	-	-	(30)	(30)
At 31 December 2014	**1,424**	**542**	**292**	**160**	**2,418**
Accumulated depreciation					
At 1 January 2014	(1,356)	(542)	(248)	(121)	(2,267)
Charge for the year	(45)	-	(1)	(21)	(67)
At 31 December 2014	**(1,401)**	**(542)**	**(249)**	**(142)**	**(2,334)**
Net book value					
At 31 December 2014	**23**	**-**	**43**	**18**	**84**
At 1 January 2014	68	-	44	69	181

Group – 2013 Cost	Leasehold improvements $000's	Fixtures and equipment $000's	Computer hardware and software $000's	Plant machinery and vehicles $000's	Total $000's
At 1 January 2013	1,424	542	292	160	2,418
Additions	-	-	-	30	30
At 31 December 2013	**1,424**	**542**	**292**	**190**	**2,448**
Accumulated depreciation					
At 1 January 2013	(1,306)	(542)	(244)	(117)	(2,209)
Charge for the year	(50)	-	(4)	(4)	(58)
At 31 December 2013	**(1,356)**	**(542)**	**(248)**	**(121)**	**(2,267)**
Net book value					
At 31 December 2013	**68**	**-**	**44**	**69**	**181**
At 1 January 2013	118	-	48	43	209

The Company does not own any property, plant and equipment.

10. Property, Plant and Equipment (continued)

10.2 Property, plant and equipment – oil and gas properties

	Group Assets under construction $000's
Cost	
As at 1 January 2014	-
Transferred from intangible assets (Note 11.1)	46,032
Additions	13,305
As at 31 December 2014	**59,337**
Net book value	
Carrying amount at 31 December 2014	**59,337**
Carrying amount at 31 December 2013	-

Oil and gas properties - assets under construction comprise of the Group's investment in the Aje development in OML 113. On 6 October 2014, the Aje partners took the Final Investment Decision (FID) on the Phase 1 cenomanian oil development of the Aje field in OML 113 and resultantly the carrying value related to this property, after a provision for impairment on this date, was transferred from intangible assets (Note 11.1) to property plant and equipment – oil and gas properties. Interest costs of U.S.$1,116K has been capitalised and is included in additions (Note 8). The impairment assessment used to evaluate the carrying value of oil and gas properties at 31 December 2014 is the same as outlined in Note 11.1 below.

The Company does not own any property, plant and equipment - oil and gas properties.

11. Intangible Assets and Investments

11.1 Intangible Assets

	Group		Company	
	2014	2013	**2014**	2013
	$000's	$000's	**$000's**	$000's
As at 1 January	**46,985**	-	**-**	-
Transfer from farm-in deposits (Note 9)	**-**	**6,244**	**-**	-
Additions in the year	**5,733**	**40,741**	**-**	-
Impairment	**(6,686)**	**-**	**-**	-
Transfer to property, plant and equipment (Note 10.2)	**(46,032)**	**-**	**-**	-
As at 31 December	**-**	**46,985**	**-**	-

In 2013, the Group completed the acquisition of its 9% Participating Interest in OML 113 by way of a loan of U.S.$34,000K. This amount and other amounts associated with the acquisition of this asset was reclassified from farm-in deposits and accounted for as intangible assets. During the period up to 6 October 2014 the Group incurred further appraisal costs of U.S.$5,733K.

On 6 October 2014, the Aje partners took Final Investment Decision (FID) on the Phase 1 cenomanian oil development of the Aje field in OML 113. At this stage the directors conducted an impairment review and concluded that a provision for impairment of U.S.$6,686K was required in respect of OML 113.

An independent valuation note prepared in July 2015 by an internationally known reservoir evaluation consultancy was used as the basis for the directors' assessment of the recoverable value of the Group's interest. This report presented a range of possible outcomes for the production volume and the directors selected the one which in their view most accurately reflected the production volume and the significant drop in oil price. The main parameters for the valuation, including forecast cash flows, were a constant oil price of U.S.$40 per barrel and a discount rate of 10%.

The remaining net book value related to OML 113, after provision for impairment, was transferred from intangible assets to property plant and equipment – oil and gas properties (Note 10.2).

11.2 Investments

	Group		Company	
	2014	2013	**2014**	2013
	$000's	$000's	**$000's**	$000's
As at 1 January	**-**	-	**154**	154
Additions in the year	**-**	-	**-**	-
As at 31 December	**-**	-	**154**	154

11.2 Investments (continued)

A list of the Company's significant investments in subsidiaries including the name, proportion of ownership interest, country of operation and country of incorporation, is given below:

Name	%	Principal activity	Country of registration & operation
Directly held			
Energy Equity Resources Limited	100	Service Company	England and Wales
EER (Oil and Gas) Limited	100	Exploration & development	Nigeria
Energy Equity Resources (Nigeria Services) Limited	100	Service company	Nigeria
Energy Equity Resources (Oil & Gas) Limited	100	Exploration & development	Nigeria
EER 281 Nigeria Limited	100	Exploration & development	Nigeria
EER 233 Nigeria Limited	100	Exploration & development	Nigeria
Energy Equity Resources (Delta) Limited	100	Exploration & development	Nigeria
Indirectly held by Energy Equity Resources Limited			
Energy Mena Limited *	100	Dormant	England and Wales
Energy Equity Resources (Mwana) Limited*	100	Dormant	England and Wales
EER Limited**	100	Dormant	England and Wales
EER Mwana Limited **	100	Dormant	England and Wales

* Owned indirectly through Energy Equity Resources Limited.
** Owned indirectly through Energy Equity Resources (Mwana) Limited.

After the financial reporting date the dormant companies Energy Mena Limited, Energy Equity Resources (Mwana) Limited and EER Limited were allowed to be struck off the register at Companies House.

12. Trade and Other Receivables

	Group 2014 $000's	Group 2013 $000's	Company 2014 $000's	Company 2013 (restated) $000's
Current assets				
Due from subsidiary undertakings (i)	-	-	**94,955**	72,901
Less: provisions against amounts advanced to subsidiaries (i)	-	-	**(81,201)**	(47,069)
	-	-	**13,754**	25,832
Trade debtors (ii)	-	1,668	-	-
Other debtors	**61**	211	-	136
Prepayments (iii)	**759**	906	-	-
VAT recoverable	**42**	205	-	-
	862	2,990	**13,754**	25,968

(i) Due from subsidiaries

The evaluation of impairment of amounts due from subsidiary undertakings at the financial reporting date has been carried out in conjunction with the Group's overall impairment evaluation of capitalised costs relating to its interest in various licences (Notes 9, 10 and 11).

ii) Trade debtors

Until 31 December 2013 the Group had been accounting for its subsidiary's Nigerian IOC consultancy contract revenues and associated costs under IAS 11 'Construction Contracts' accounting standards. The contract expired during 2014 and due to operational constraints within the IOC that curtailed the availability of work to the Group, no further work was done by the Group in 2014. It was not possible for the Group to complete all work envisioned by the contract by the date of expiry of the contract. Subsequent to the reporting period the Group entered into a new consulting contract with the IOC, which was executed in 2015, to continue delivering similar services to the IOC, but on a call off basis. Resultantly the directors have decided to impair in full the residual receivable amount in relation to the original contract as accounted for under IAS 11. The amount impaired was U.S.$1,299K.

(III) Prepayments

Included in prepayments is a rental deposit of U.S.$511K (2013: U.S.$521K) in respect of a lease of its office for 35 Portman Square, London. The Company vacated the property after the financial reporting date. The rental deposit was applied by the landlord under the terms of the lease agreement and relevant legislation against rental arrears after the reporting date, and the director considers that the deposit became unrecoverable after the reporting date.

13. Share Capital and Share Premium

	Number	2014 $000's	2013 $000's
Authorised			
Ordinary shares of £1 each	1,112,425	1,779	634
Participation shares of £1 each	240,232	557	147
Deferred shares of £1 each	1	1	1

	Equity share capital allotted and fully paid		Share premium
	Number	$000's	$000's
Allotted equity share capital and share premium			
As at 1 January 2013	382,407	665	51,154
Issued during the year to employees and key advisors	25,250	40	-
Issued during the period to Gairloch Limited	72,344	115	4,713
As at 31 December 2013	480,001	820	55,867
Issued during the year (Note 13.1)	102,616	158	7,664
Share based payments (Note 13.2)	3,000	5	-
Issued during the year upon conversion of debt (Note 13.3)	767,041	1,246	59,651
As 31 December 2014	**1,352,658**	**2,229**	**123,182**

13.1 Issued during the year

During the year there were new share subscriptions amounting to 74,766 Ordinary £1 shares to Gairloch Limited, 12,272 Ordinary £1 shares to Trisac Limited and 2,455 Ordinary £1 shares to Obinna Ufodo for U.S.$7,822K, paid in cash, resulting in a share premium of U.S.$7,664K.

In December 2014 the Company also issued 13,123 Ordinary £1 shares to creditors of the Company in partial settlement of amounts outstanding to them. The determination of the market value of shares issued in the Company is set out in Note 13.3 below.

Details of shares issued relating to debt conversion to equity are outlined in Note 13.3.

13. Share Capital and Share Premium (continued)

13.2 Share based payments

The Company's share option scheme was adopted pursuant to a resolution passed on 30 July 2010 for the primary purpose of providing incentives to directors and eligible employees with no expiry date.

In March 2014, the Group authorised the grant of share options of 1,500 Participation £1 shares and a further 1,500 Ordinary £1 shares both at a nominal value of £1 per share, with a weighted average exercise price of U.S.$1.65 per share. These shares were then issued to Victor Etim and Yinka Ogundare (director), both employees of the Group.

At this date, due to the Company's debt position with no title to any revenue generating assets and very limited access to funding, the options were granted at a nominal value as it held no value to the option holder.

The Board of Directors prepared a valuation paper to determine the market value of the shares having taken into account the value of the OML 113 asset and the Group's business, which resulted in a share option value of U.S.$71.5 per share. The total compensation costs relating to the grant was calculated as U.S.$216K for the year ended 31 December 2014 (2013: Nil).

13.3 Debt conversion to equity

Debt to equity conversions relating to convertible loan notes or the settlement of trade and other payables were performed using the market value of shares derived by management. The valuations as agreed between the Company and third parties, including related parties, as approved by the board of directors, have taken into account the value of the OML 113 asset, the discount for existing borrowings and some cases premiums relating to updated knowledge of the asset. The market value of shares used for these transactions ranged between U.S.$36,000K to U.S.$75,000K.

Details of the conversions are noted as follows:

In March 2014, a shareholder resolution was passed to convert most of the Company's convertible loan into equity: Gairloch Limited elected to convert all of its convertible loan note into 199,808 Ordinary £1 shares and 20,102 Participating £1 shares. Share certificates for 85,321 Ordinary £1 shares and 20,102 Participating £1 shares were issued to Gairloch Limited and in addition 114,487 Ordinary £1 shares was issued to Guan Limited at the direction of Gairloch Limited also in satisfaction of the Gairloch Limited debt.

In March 2014, M. Ogundare and Y. Ogundare converted their respective convertible loan note and outstanding salary due into 10,461 and 2,039 Ordinary £1 shares respectively.

In March 2014, Shining Star Limited also converted its residual debt into 9,376 Ordinary £1 shares.

In October 2014, Guan Limited partially converted U.S.$42,803K of the total convertible loan balance of U.S.$51,846K into 525,255 Ordinary £1 shares.

At the date of this report, conversions have been completed and all share certificates executed.

14. Borrowings

	Group		Company	
	2014	2013	**2014**	2013 (restated)
	$000's	$000's	**$000's**	$000's
Non-current				
Loans repayable to related parties	**11,318**	-	-	-
Current				
Loans repayable to third parties	**2,833**	1,808	**2,833**	1,808
Loans repayable to related parties	**9,043**	32,020	**9,043**	32,020
Loan - SacOil Holdings Limited (OPL 233)	**24,417**	15,458	**24,417**	15,458
Loan - FBN	**34,278**	34,000	-	-
Loan - FHN 113 Limited (OML 113)	**10,419**	8,591	**10,419**	8,591
	80,990	91,877	**46,712**	57,877
Borrowings are made up of loans from:				
Gairloch Limited	-	30,590	-	30,590
Guan Limited	**9,043**	-	**9,043**	-
Hessia Group Limited	**11,318**	-	-	-
Loan - Nigerian Investor	**139**	815	**139**	815
Loan due to others	**1,044**	719	**1,044**	719
Shining Star Limited	-	615	-	615
Loan - UK Investor	**1,650**	1,089	**1,650**	1,089
Loan - SacOil Holdings Limited (OPL 233)	**24,417**	15,458	**24,417**	15,458
Loan – FBN	**34,278**	34,000	-	-
Loan - FHN 113 Limited (OML 113)	**10,419**	8,591	**10,419**	8,591
	92,308	91,877	**46,712**	57,877

SacOil Holdings Limited

Contingent loans repayable from future production

During 2011 and pursuant to the Farm In Agreements for OPL 281 and OPL 233, the Group was obliged to make advance payments of certain farm-in consideration amounts (Note 9). Under the terms of the Master Joint Venture Agreement between SacOil and the Company, as amended, SacOil paid on behalf of the Company an amount equal to this advance farm-in consideration. SacOil posted security for a U.S.$25,000K Performance Bond in relation to OPL 233 with Ecobank on behalf of itself and the Company in equal proportions.

The security for the bond consisted of a U.S.$10,000K cash deposit and a pledge over the shares of SacOil 233 Nigeria Limited, a wholly owned subsidiary of SacOil. The interest bearing loan from SacOil is for 50% of the security provided by SacOil and 50% of the related transaction costs. The interest rate payable on the U.S.$5,000K cash component of the loan is 50% and the residual U.S.$7,500K is 30% nominal annual compounded monthly ("nacm"). The loan is secured against the entire share capital of EER 233 Nigeria Ltd. The interest rate on the loans is 25% nacm.

14. Borrowings (continued)

Contingent loans repayable from future production (continued)
During the year the repayment date for the SacOil loan was extended to 31 July 2014 after a part repayment of U.S.$1,000K was made and then subsequently to 31 October 2014 after a part repayment of another U.S.$1,000K was made and it was agreed to offset the promote fee due from SacOil to the Company of U.S.$2,500K as a result of the granting of government consent in connection with OPL 233.

In October 2014, the Company signed a loan extension letter with SacOil extending its loan repayment date to 30 November 2014 with a 32% default interest rate pa on the outstanding short term loan amount and also accept accrued interest totalling U.S.$6,500K from April 2012 to November 2014, on the non-cash component of the loan amount, payment of which was agreed to be deferred to 30 September 2016.

In March 2015, SacOil and the Group entered into a debt settlement agreement where the Group's total indebtedness was confirmed as being U.S.$24,714K as at 30 November 2014 and frozen at this amount with no further finance costs to accrue from this date. The settlement agreement provided for repayments to be made from certain contingent receivables from the Group related to its interest in OML 113 between March 2015 and the date of first oil from the Group's OML 113 asset. No such contingent receivables materialised and pursuant to the settlement agreement the total indebtedness of the Group reduced to U.S.$5,000K on the date of first oil production from OML 113, being in May 2016. The residual U.S.$5,000K indebtedness is interest free and repayable only out of a defined and restricted portion of free cash flow from the Group's OML 113 asset after inter alia: operating cost, capital costs, financing cost, debt repayment and other defined costs and provisions. The Group expects to recognise a credit to the statement of comprehensive income of at least U.S.$19,714K in relation to the debt settlement agreement in 2015, with the exact amount dependent on the Group's assessment of the likelihood and potential timing of any repayments.

On 26 May 2015 the Group informed Nigdel that it was withdrawing from the farm in agreement. Following the withdrawal from the asset, the Group no longer has a contingent liability relating to the performance bond posted by SacOil.

14. Borrowings (continued)

Purchase of interest in OML 113
On 1 April 2012, the Group and FHN 113 Limited ("FHN") executed a Joint Purchase Agreement whereby it agreed to jointly purchase an 18% participating interest in OML 113 in the Federal Republic of Nigeria. FHN is a subsidiary of First Hydrocarbon Nigeria, a company in which Afren plc has a 45% ownership interest.

Also on 1 April 2012, the Group and FHN executed a Loan Agreement and related financing documents. Under the Loan Agreement, FHN committed to provide a loan facility of up to $10 million to the Group for the purpose of partially funding the Group's share of the OML 113 purchase consideration. The Group drew down an initial U.S.$6,000K to fund its share of the consideration deposit as noted above. The loan accrues interest at 20% per annum and was repayable in full on 28 March 2013. Pursuant to an amendment deed dated 26 March 2013, the repayment date was extended to 14 October 2013 with an increase in the interest rate to 25% as of 28 March 2013. The loan repayment has been subsequently extended to 11 December 2014. Since that date, a repayment of U.S.$1,500K has been made to FHN and discussions are continuing about how and when the outstanding balance will be repaid.

As security for the loan, the Group granted FHN security over 22.5% of the issued share capital of EER (Colobus) Nigeria Limited (a 100% subsidiary of the Company and asset holding vehicle for the Group's interest in OML 113), security in the form of a right of assignment of 12.5% of the Group's participating interest in the asset, security over the entire issued share capital of EER 281 Nigeria Limited and security over the Company's contractual economic interest in JDZ Block 1.

On 2 April 2012 the Group and FHN executed an Asset Sale and Purchase Agreement ("ASPA") with Chevron Nigeria Deepwater H Limited ("Chevron") to acquire Chevron's 18% participating interest in OML 113 for a combined cash consideration amount of U.S.$80,000K. The Group and FHN will receive 9% participating interest each, subject to obtaining the consent of the Federal Government of Nigeria and each party fulfilling its obligations under the sale and purchase agreement and Joint Purchase Agreement.

On 2 April 2012, FHN and the Group paid the required 15% deposit of U.S.$12,000K to Chevron. On 28 September 2012, the Group, Chevron and FHN executed a letter agreement extending the Long Stop Date of the ASPA to 30 September 2013. The outstanding balance of U.S.$68,000K was due upon government consent to the assignment.

On 17 May 2013, the Nigerian Minister of Petroleum Resources, granted approval to the assignment of 9% participating interests in OML 113 each to the Group and FHN.

On 16 July 2013, First Bank of Nigeria ("FBN") advanced a loan of U.S.$34,000K to the Group and the Group paid U.S.$34,000K to Chevron to complete the acquisition of its 9% Participating Interest in OML 113. As a result, title ownership was awarded to the Group. The tenure of the FBN loan is 12 months with an interest rate of Libor + 9.5% per annum. As security for the loan, the Group granted FBN security over 75% of the issued share capital of EER (Colobus) Nigeria Limited (a 100% subsidiary of the Company and asset holding vehicle for the Group's interest in OML 113),

This loan was repayable in July 2014. As at the date of this report and after the financial reporting date, FBN agreed through a letter dated 20 May 2016 to restructure the loan terms and extend the loan repayment date to May 2026. Discussions are continuing with FBN to sign the necessary facility documentation to conclude the restructuring. Further detail are disclosed in Note 19 (vi).

14. Borrowings (continued)

Other loans

The Group has relied heavily on the ongoing financial support provided by its ultimate beneficial owner. The Company has issued convertible loan notes to related parties of the ultimate beneficial owner, including Gairloch Limited, Guan Limited and Hessia Group Limited.

During 2014, the entire Gairloch Limited convertible loan note was converted into 274,574 Ordinary £1 shares and 20,102 Participating £1 shares. Share certificates for 160,087 Ordinary £1 shares and 20,102 Participating £1 shares were issued to Gairloch Limited and in addition 114,487 Participation £1 shares was issued to Guan Limited at the direction of Gairloch Limited also in satisfaction of the Gairloch Limited debt (See Note 13.3). These loans bear interest of 24% per annum and monthly management fees of 8%. Conversion was achieved at rates between U.S.$70.56 and U.S.$73.56 per share.

During 2014, convertible loan notes were issued to Guan Limited, a company incorporated in the British Virgin Islands, of U.S.$25,000K. These amounts were used to meet the Group's asset development obligations. These loans bear interest of 24% per annum and monthly management fees of 8%. In October 2014, Guan Limited exercised its conversion rights and partially converted U.S.$42,803K of the total convertible loan balance of U.S$51,846K into 525,255 Ordinary £1 shares at a share price of U.S.$81.49.

Due to the fact that the transactions are with a related party, and the challenges that exist in determining equivalent fair value transactions that may exist in the market place, the financial statements do not include the equity component on initial recognition of the compound financial instruments relating to convertible loan notes issued to Gairloch Limited, Guan Limited during the years ended 31 December 2014 and 2013.

In March 2014, the Company issued an unsecured convertible loan note to Mr Adewale for a subscription price of U.S.$75K. These notes bear 15% per annum. A further investment of U.S.$25K was also received in May 2014. Based on management's best estimates, an interest rate of 30% per annum has been used to determine the fair value of an equivalent third party loan in order to calculate the equity component on initial recognition of the compound financial instrument.

In October 2014, a convertible loan note was issued by a subsidiary to Hessia Group Limited ("Hessia"), a company incorporated in the British Virgin Islands, of U.S.$12,500K as part of a U.S.$70,000K loan facility. The loan bears interest at 24% per annum and is subject to an upfront arrangement fee of 1.5% of the facility and has a final maturity date of 31 December 2023. Based on management's best estimates, an interest rate of 30% per annum has been used to determine the fair value of an equivalent third party loan in order to calculate the equity component on initial recognition of the compound financial instrument, amounting to U.S.$2,004K, which has been recorded as a non-controlling interest in the consolidated statement of financial position. Hessia has second ranking security behind both FBN and FHN.

Also included in borrowings is prepaid arrangement fees on the Hessia loan amounting to U.S.$876K at 31 December 2014. (2013: Nil). The amount of the prepayment was derived by discounting the full arrangement fee by an equity portion and the residual balance will be amortised over the expected term of the loan of 9 years at the effective interest rate of 30%.

Guan Limited, Gairloch Limited and Hessia Group Limited are related parties by virtue of being the Olowolafe family.

15. Trade and Other Payables

	Group		Company	
	2014	2013	**2014**	2013
	$000's	$000's	**$000's**	$000's
Amounts due to subsidiary undertakings	**-**	-	**4,500**	4,500
Trade and other creditors	**2,042**	2,496	**-**	-
Unpaid share capital	**-**	-	**154**	154
Unearned revenue	**94**	-	**-**	-
Accruals and other payables	**10,195**	7,097	**1,380**	3,841
Social security costs and wages	**551**	486	**-**	-
	12,882	10,079	**6,034**	8,495

16. Taxation

No corporation tax liability has arisen as the Group has incurred trading losses and therefore a tax reconciliation has not been provided. A deferred tax asset has arisen as a result of the taxable losses carried forward at 31 December 2014 and 2013. No deferred tax asset has been recognised in these financial statements as there is insufficient evidence of future taxable profits. The unrecognised deferred tax asset at 31 December 2014 is in the region of U.S.$12,500K for the Group and U.S.2,000k for the Company. These losses can be carried forward indefinitely assuming there is no change in trade relating to the activities of the Company and the Group. There are no undistributed earnings of subsidiaries and accordingly no requirement to record deferred tax in respect of such balances.

17. Related Party Transactions

Directors' and Key Management Interests

The directors who held office at 31 December 2014 had the following interests in the shares of Group undertakings:

	Ordinary shares (number)	
	2014	2013
O. Okhomina	89,225	78,849
Y. Ogundare	23,539	20,000

Directors' and key management emoluments, which represent remuneration payable to key management personnel is disclosed in Note 7 to the financial statements.

17. Related Party Transactions (continued)

Balances with related parties

Various convertible loan notes and loans issued to related parties have been disclosed in Notes 13 and 14. This includes amounts converted into the issue of Ordinary £1 shares and Participation £1 shares during the years ended 31 December 2014 and 31 December 2013.

At 31 December 2014 and 31 December 2013, in addition to the amounts due to Gairloch Limited, Guan Limited and Hessia Group Limited, the following balances were outstanding:

	2014	2013
	\$000's	\$000's
Michael Ogundare	-	(8,157)
Shining Star Limited	-	(615)

Shining Star Limited is related by virtue of being a company owned by director and shareholder, Osamede Okhomina.

Amounts due from subsidiaries are interest free and repayable on demand.

Security arrangements with related parties are disclosed in Note 20.

Transactions with related parties entered into since the financial reporting date are disclosed in Notes 19 (ii-iv).

Other transactions with related parties

Details are disclosed in Note 13.3. Michael Ogundare, who is a brother to Yinka Ogundare, Chief Executive Officer of Energy Equity Resources (Norway) Limited in 2014, elected to convert his convertible loan note and the accrued interest into shares. In March 2014, conversion was finalised and share certificates issued.

Ultimate beneficial owner

The ultimate beneficial owner of the Company is the Olowolafe family, with father and daughter together controlling more than 50% of the issued share capital of the Company.

18. Operating Lease Commitments

	2014	2013
	\$000's	\$000's
Within one year	**502**	533
In the second to fifth years	**251**	1,065
	753	1,598

The operating lease payments represent rentals payable by the Group for its London office. The terms of the lease are 10 years from 2006. In addition to the London premises the Group also has lease obligations on Nigerian office rentals which all fall into the less than one year category. At the date of this report, the London lease has expired and the Company has vacated the property.

19. Events after the Reporting Date

In addition to the matters disclosed in Note 14, the following events have occurred since the financial reporting date:

i) Business Activities

Nigeria - Crude Trading Allocation

SacOil and the Company incorporated a Seychelles entity namely SacOil Energy Equity Resources Limited ("SEER") with a minimal capital investment. The ownership split is 50% each.

In October 2015, SEER applied for, through a competitive bid process, and was awarded a twelve-month (12) term contract for the purchase of Nigerian crude oil grades from the Nigerian National petroleum Corporation (NNPC). The contractual terms of crude trading allocation is standard for all third parties awarded a crude allocation by NNPC.

Although the contract is for a 12-month period, SEER has to apply monthly to NNPC for lifting of crude. The crude grades will vary and the availability of crude oil from NNPC for onward sale is dependent on aggregate crude production in Nigeria available for lifting by third parties. SEER is focused on securing monthly crude allocation, subject to availability.

In February 2016, SEER entered into a 12 month term contract to purchase the NNPC crude oil cargos from SEER. In November 2016, SEER successfully participated in a an NNPC bid round to purchase crude oil cargos under a new 12 month term contract, SEER signed the 12 month Term Contract with NNPC in February 2017.

Nigeria/ South Africa – Upstream, Midstream and Downstream Investments

SacOil, the Public Investment Corporation of South Africa (PIC) – Sovereign Wealth fund of South Africa, Trafigura Pte and the Company signed a Memorandum of Understanding ("MOU") on 25 April 2016 to explore oil and gas ("O&G") opportunities in the Republic of Nigeria. As part of this MOU the parties are evaluating various opportunities in Nigeria to participate in the sector, across the energy value chain.

The Group's role and interest in the business

The Group is working closely with Sacoil and Trafigura to manage the activities relating to the trading activities. The trading activities have provided an additional source of income for the Group having successfully completed 2 liftings in June and September 2016. The crude trading is to form a basis to expand the Group's trading activities and build an effective trading segment for the Group.

The Group and its partners are also looking at upstream, midstream and downstream opportunities under the terms of the MOU.

19. Events after the Reporting Date (continued)

ii) Loan from Hessia Group Limited

From January 2015 to the date of this report, further loans have been received from Hessia Group Limited, a company incorporated in the British Virgin Islands, under the U.S.$70,000K convertible loan facility. These amounts were used to meet the Group's asset development obligations.

iii) Subscription for New Ordinary Shares

Since the balance sheet date, 1,974 Ordinary £1 shares have been issued to certain creditors of the Group in order to satisfy trade payables outstanding.

iv) Subscription for New Participation Shares

On 12 October 2016, Guan Limited converted the full balance of its convertible loan into 115,627 Participation £1 Shares of the Company.

v) New Unsecured Loans

<u>Detail Mutual Investment Ltd ("Detail")</u>
On 8 August 2015, EER Nigeria Services Ltd took an unsecured loan of U.S.$200K from Detail for a term of 1 year at an interest rate of 24% per annum. As at the date of this report, U.S.$100K has been repaid to Detail with approximately U.S.$153K outstanding and expected to be paid from crude proceeds.

<u>Jake Riley Limited ("Jake Riley")</u>
On 13 May 2016, EER Nigeria Services Ltd took an unsecured convertible loan of U.S.$100K from Jake Riley Ltd for a term of 1 year at an interest rate of 20% per annum. The Group is up to date on monthly interest payments.

<u>Glencore UK Ltd ("Glencore")</u>
On 7 September 2016, EER (Colobus) Nigeria Ltd took an unsecured loan of U.S.$2,100K from Glencore to fund Aje cash call number 27.The loan was fully repaid from the proceeds of the Group's 1st crude oil lifting in from Aje in October 2016.

<u>Gemcorp Fund I Ltd ("Gemcorp")</u>
On 28 October 2016, EER (Colobus) Nigeria Ltd took an unsecured loan of U.S.$2,750K from Gemcorp to fund Aje cash call numbers 28 and 29. The loan was repaid from the proceeds of Group's 2nd crude oil lifting in December 2016.

vi) Loan Extensions / Repayment – FHN and Sacoil

On 10 April 2014, FHN extended its loan repayment date to the earlier of the date of completion of a major equity or debt raise by the Group and close of business day on 11 December 2014. Since that date, 2 repayments totalling U.S.$2,900K (U.S.$1,500K in February 2015 and U.S.$1,400K in April 2015) have been made to FHN. In 2015, Afren Plc (parent company of FHN) entered into administration with Alix partners UK appointed as administrator. Since then, the debt has been assigned from FHN to Afren Nigeria Holdings Ltd (AHNL) and FHN sold off. There are ongoing discussions with the Group raising funds to settle the debt.

19. Events after the Reporting Date (continued)

vi) Loan Extensions / Repayment – FHN and Sacoil (continued)

On 30 May 2014, SacOil extended its loan repayment date to 31 July 2014. In June 2014 the Group, repaid SacOil an amount of U.S.$1,000K towards its current outstanding short term loan. In August 2014, SacOil agreed to extend its loan repayment date to 31 October 2014 on the basis of a further part repayment of U.S.$1,000K and the agreement to offset the U.S.$2,500K promote fee due to the Group from SacOil in relation to OPL 233. In October 2014, the Group signed a loan extension letter with SacOil extending its loan repayment date to 30 November 2014.

In March 2015, SacOil and the Group entered into a debt settlement agreement where the Group's total indebtedness was confirmed as being U.S.$24,714K as at 30 November 2014 and frozen at this amount with no further finance costs to accrue from this date. The settlement agreement provided for repayments to be made from certain contingent receivables from the Group related to its interest in OML 113 between March 2015 and the date of first oil from the Group's OML 113 asset. No such contingent receivables materialised and pursuant to the settlement agreement the total indebtedness of the Group reduced to U.S.$5,000K on the date of first oil production from OML 113, being in May 2016.

The residual U.S.$5,000K indebtedness is interest free and repayable only out of a defined and restricted portion of free cash flow from the Group's OML 113 asset after inter alia: operating cost, capital costs, financing cost, debt repayment and other defined costs and provisions. The Group expects to recognise a credit to the statement of comprehensive income of at least U.S.$19,714K in relation to the debt settlement agreement in 2015, with the exact amount dependent on the Group's assessment of the likelihood and potential timing of any repayments.

A difference of opinion between Nigerian National Petroleum Corporation (NNPC) and Department of Petroleum Resources (DPR) on the validity of an OPL 233 license extension approved by NNPC on 6 May 2012 consequently led to the withdrawal of both EER and Sacoil from the OPL 233 asset. The aftermath of Sacoil and the Group's withdrawal from the asset and subsequent cancellation of the U.S.$25,000K Performance Bond posted by Ecobank Plc (a Nigerian commercial bank), resulted in Nigdel bringing litigation and arbitration proceedings against several parties including the asset holding Nigerian subsidiary of the Company (EER 233 Nigeria Ltd).

On 11 October 2016, Nigdel, Sacoil and the Group signed a Settlement Agreement that withdrew all legal proceedings and settled all legal disputes.

In December 2014, Sacoil instituted a withdrawal from the OPL 281 licence and sought a refund from Transcorp of the U.S.$12,500K (plus interest) it had invested in the asset. Transcorp instituted litigation proceedings at the Federal High Court, Lagos against both SacOil and the Group. As at the date of this report, Transcorp, the Group and Sacoil are pursuing means of an amicable settlement of all legal disputes. The Group, on advice from its Nigerian legal advisors, does not consider it likely that the Group will become liable to Transcorp for any of the amounts claimed. Transcorp does not have recourse to any Group companies other than EER 281 Nigeria Limited.

To the date of this report, FBN has agreed to refinance its U.S.$34,000K loan by extending the repayment date to 20 May 2026, reducing interest to US Libor plus 9%, granting a 1 year moratorium on interest payments and agreeing to a scheduled quarterly repayment plan. The Group is conducting a legal documentation review process for the revised loan facility and security agreements. This is expected to be completed in April 2017.

19. Events after the Reporting Date (continued)

vii) Company Voluntary Arrangement (CVA)

On 25 August 2015, the Company's wholly owned subsidiary Energy Equity Resources Limited ("EERL") entered into a binding company voluntary arrangement (CVA) with its creditors to pay off an agreed value of claims by way of funding from the Company. Under this arrangement, EERL was required to pay 50% of the net profit from the IOC consultancy contract income generated by the Company over a 2 year period. The amount payable to creditors was agreed to be GBP600,000. At the date of this report, no payment has yet been made because of delays in getting allocated work under the IOC consultancy contract. In November 2016 a modification to the CVA was approved by a meeting of creditors which varied the key terms of the CVA. The Company must now pay GBP40,000 into the CVA by 31 December 2016, followed by 15 quarterly payments of GBP40,000 each.

viii) Update On Assets

OML 113 – Aje development

The Aje Partners' initial development scheme is to target the Cenomanian reservoir with two subsea wells tied back to a leased FPSO as shown in the schematic above. Each Aje Partner is then allowed to lift its economic interest share of crude oil via a tanker in line with an agreed offtake schedule. In January 2014, the field development plan and review was completed and approval received by the Department of Petroleum Resources in March 2014.

In October 2014, the Aje partners took Final Investment Decision (FID) on the Phase 1 cenomanian oil development of the Aje field in OML 113. On 3 May 2016, the asset officially achieved 1st oil production at a rate of about 7,000 bopd.

Crude oil produced from the Aje field is stored on the Floating Production Storage and Offloading (FPSO) vessel named Front Puffin - on a three-year lease from Rubicon Offshore International. The FPSO has processing capacity for 40,000 barrels of liquids per day and storage capacity of 750,000 barrels of crude oil.

The OML 113 partners, including the Group, have entered into an Offtake Agreement with international trading company Glencore with the 1st sale of crude oil from the field successfully completed on 16 September 2016. The 2nd lifting occurred on 1 January 2017 and the 3rd lifting is anticipated towards the end of March 2017.

The attainment of this milestone is indeed a historic achievement for the Nigerian oil and gas industry as it celebrates the first commercial hydrocarbon production outside the prolific Niger Delta basin, where Nigeria exclusively produces hydrocarbons.

The Aje field is geographically located at the Benin / Dahomey Basin i.e. about 27km offshore Badagry in Lagos State and about 600km away from the Niger Delta. The region is peaceful, secure, and free of the militancy and community disruptions that often hinder oil production in the Niger Delta Basin.

The OML 113 partners are working on an Aje gas development programme that will include an offshore gas processing facility stationed about 13km from to the West African Gas Pipeline (WAGP) and 27 km to Lagos. The OML 113 partners intend to fast track the Aje gas development (Phase 3) to first gas production by late 2017 / early 2018.

The OML 113 partners' interpretation of the 2014 vintage 3D seismic data shows material oil and gas prospective resource upside in OML 113.

19. Events after the Reporting Date (continued)

viii) Update on assets

OPL 233 and OPL 281

As at the date of the signing of these financial statements, the Group has relinquished its interests in OPL 233 and OPL281 in order to focus on the development of its producing and cash generative asset OML 113.

ix) Contingent Receivable on OML 115

Pursuant to the Transfer Interest Agreement dated 21 June 2010 between the Group and Afren Exploration & Production Nigeria Beta Limited, the Group is set to receive U.S.$2,500K on the business day following the date of grant of a field development approval and a further U.S.$3,000K on the business day following the date upon which the cumulative gross production of crude oil from OML 115 exceeds 35mmbls. As at the date of this report, field development approval has not been obtained and production remains uncertain because Afren has been placed under administration and the asset is likely to be sold to a 3rd party thus terminating the Group's economic rights in the asset.

20. Contingent Liabilities

i) Previous disposals

The Group has given warranties and indemnities to the buyer in connection with the sale of a subsidiary company in 2005. The Group remains liable to meet commitments and other undertakings in respect of an associated company in which the former subsidiary referred to above had a 49% interest. The buyer of the former subsidiary has given undertakings to meet any commitments as they fall due. As at the date these financial statements were approved, the directors were not aware of any claims arising from the foregoing.

Following the withdrawal of Sacoil from OPL 281 and the request for Transcorp to refund U.S.$12,500k in prior payments by Sacoil (on behalf of EER and Sacoil), Transorp lodged a legal case against Sacoil 281 Ltd and 281 EER Ltd (Nigerian subsidiaries) claiming special damages of up to U.S$50,000k for wrongful termination, breach and repudiation of the partnership agreements by Sacoil. The Group believes that Transcorp took out this frivolous lawsuit to avoid refunding the U.S,$12,500k to Sacoil (even though Transcorp had indicated that it would refund). The matter is being heard within the Nigerian courts where it shall likely be referred to arbitration as mandated under the partnership agreements. In parallel, there are ongoing discussions between Sacoil and Transcorp to settle this matter. Any financial exposure is limited to EER 281 Ltd as there are no parent company or affiliate company guarantees in place,

ii) Security arrangements and guarantees

As security for the loan from FHN, the Group granted FHN security over 22.5% of the issued share capital of EER (Colobus) Nigeria Limited (a 100% subsidiary of the Company and asset holding vehicle for the Group's interest in OML 113), security in the form of a right of assignment of 12.5% of the Group's participating interest in the asset, security over the entire issued share capital of EER 281 Nigeria Limited and security over the Group's contractual economic interest in JDZ Block 1.

As security for the loan from FBN, the Group granted FBN security over 75% of the issued share capital of EER (Colobus) Nigeria Limited. All security arrangements has been assigned from FHN to ANHL.
The Group's corporate guarantee to Gairloch Limited in respect of a U.S.$1,000K payment made by Gairloch Limited to SacOil, has been settled under Gairloch Limited's equity settlement with SacOil.

21. Rechargeable Costs

Some expenses incurred on behalf of other subsidiaries during the period have not been recharged by the Company.

22. Financial Risk Management

(a) Capital Risk Management

The capital structure of the Group consists of net debt and equity. The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholder and benefits for other stakeholders;
- to enhance the ability of the Group to invest in future projects by sustaining a strong financial position and high borrowings capacity; and
- to provide an adequate return to its shareholders.

The Group is still in the exploration and evaluation stage of its activities. The Group's capital structure is supported by external loans. The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio. The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net debt to adjusted equity ratio at 31 December 2014 is summarised as follows:

	2014 $000's	2013 $000's
Borrowings	92,308	91,877
Cash and cash equivalents	(272)	(587)
Net debt	92,036	91,819
Total equity	(44,635)	(39,744)
Total capital	48,277	52,075
Net adjusted debt ratio	191%	176%

(b) Categories of Financial Instruments

Financial assets	2014 $000's	2013 $000's
Cash and cash equivalents	272	58
Loan and receivables (excluding prepayments)	102	2,084
Total financial assets	374	2,142
Non-financial assets	60,181	60,070
Total assets	60,555	62,212

Financial liabilities	2014 $000's	2013 $000's
At amortised cost	94,995	94,859
Total financial liabilities	94,995	94,859
Non-financial liabilities	10,195	7,097
Total liabilities	105,190	101,956

22. Financial Risk Management (continued)

(c) Financial Risk Factors

The Group's operations expose it to a number of risk factors including exchange rate risk, interest rates risk, credit risk and liquidity risk. The Group seeks to minimise potential adverse effects on the Group's financial performance by employing a sufficiently robust financial strategy to withstand prolonged adverse conditions in significant risk factors such as unfavourable conditions in the financial markets. The Group's results and cash flows are influenced by the success of the Group in managing these risk factors as detailed below.

Foreign currency risk

The Group's activities are principally conducted in U.S. dollars. 100% of the Group's revenues and borrowings and currently approximately 55% of the Group's costs are denominated in U.S. dollars, with the remainder of costs denominated in Pounds Sterling and Nigerian Naira. Overall exposure is kept under constant review and the Group may participate in currency hedging where considered appropriate in the future.

The directors consider the foreign exchange risk at 31 December 2014 and 2013 is not significant due to the low level of monetary assets and liabilities held in currencies other than US dollars as at 31 December 2014 and 2013. The loss on foreign exchange incurred during the year ended 31 December 2014 amounted to U.S.$583K (2013: U.S.$56K).

Interest rate risk

The Group evaluates its interest rate exposure on a regular basis and acts accordingly in order to align with the defined risk limits set by the board of directors. The Group does not use interest rates swaps to mitigate risk arising from fluctuating exchange rates.

At 31 December 2014 all borrowings are either interest free or bear interest at fixed rates so the directors consider the interest rate risk is not material at the financial reporting date.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from deposits with financial institutions as well as exposure to customers, including receivables and committed transactions.

The Company had no trade receivables at the financial reporting date (2013: U.S.$1,668K). During the reporting period the Group impaired Trade receivables of U.S.$1,299 (Note 12). Non-current trade and other receivables includes a contingent asset which has been fully impaired at 31 December 2014. Details are disclosed in Note 19.

The directors are of the opinion that there is no other material exposure in respect of current trade and other receivables.

The directors are of the opinion that the credit risk on liquid funds is limited as counterparties are well established banks.

22. Financial Risk Management (continued)

(c) Financial Risk Factors (continued)

Liquidity risk

Management has built an appropriate liquidity risk management framework for the management of short, medium and long-term funding and liquidity management requirements. The risk refers to the inability of the Group to sell its assets on short notice at market prices. Fixed assets owned by the Group are more difficult to sell, if the need arises, in comparison to financial assets. However the Group tries to maintain adequate cash and cash equivalents, and has demonstrated in the past its ability to obtain funding and credit facilities to meet its commitments. The Group has the flexibility to take effective actions to alter the amounts and timing of its cash flows so that it can respond to unexpected needs and opportunities, by raising new capital, if required. All liabilities are due repayable within one year of the financial reporting date with the exception of the borrowings relating to Hessia amounting to U.S.$12,194K, which are repayable after five years.

(d) Fair Value Estimation

As at 31 December 2014 and 2013, the Group had no financial instruments measured at fair value.

The carrying amount of financial assets approximates their fair value. However, the fair value of financial liabilities is considered to be significantly less than the carrying amount due to the underlying uncertainty relating to the Group's ongoing operations and the fact that a portion of the loans repayable at the financial reporting date are unsecured and the Group's negative equity position. The directors are of the opinion that the fair value of financial liabilities cannot be quantified.

23. Prior Period Adjustment

During the year ended 31 December 2014, the Company identified an error relating to the recording of loan liabilities in the Group. An adjustment has been made to borrowings at 31 December 2013 to correct an error previously made whereby U.S.$34 million borrowed by a subsidiary company was incorrectly classified as being borrowed by the parent company as at 31 December 2013.

The error only impacted on the Company's Statement of Financial Position as at 31 December 2013 and the Statement of Cash Flow for the year ended 31 December 2013. The error did not impact any earlier periods or the other primary statements. Consequently the Company's Statement of Financial Position as at 1 January 2013 has not been prepared or presented. Comparatives for the Company as at 31 December 2013 have been updated to reflect this change. The table below summarises the amount of the adjustment for each financial line item affected:

Company	Previously stated	Adjustment	Restated
	$'000	$'000	$'000
Statement of Financial Position			
31 December 2013			
Borrowings	(91,877)	34,000	(57,877)
Trade and other receivables	59,968	(34,000)	25,968
Statement of Cash flows			
Year ended 31 December 2013			
Advances received	(46,816)	34,000	(12,816)
New loans raised	67,289	(34,000)	33,289